

Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 IO-13 AF-10 ARA-10 EA-10 EUR-12
NEA-11 OIC-02 STRE-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07
ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 NSCE-00
SSO-00 ICAE-00 INRE-00 DOEE-00 JUSE-00 /153 W
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TO SECSTATE WASHDC IMMEDIATE 9105

INFO AMEMBASSY ALGIERS

AMEMBASSY BANGKOK

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY BRUSSELS

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY CANBERRA

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AMEMBASSY DUBLIN

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AMEMBASSY TOKYO

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PASS ELECTRONICALLY USDA FOR ASST. SEC. HATHAWAY; AND
STR FOR AMB. WOLFE

STATE FOR ASST. SEC. KATZ

E.O. 11652: N/A

TAGS: EAGR ETRD OCON

SUBJECT: INTERIM COMMITTEE DISCUSSES NEW WHEAT
SCHEME --NOTIONAL PRICES

REF: LONDON 6815

SUMMARY: DURING OPENING SESSION OF INTERIM WORKING GROUP, PRELIMINARY EXPLANATION BY EC AND U.S. AS TO UNDERSTANDINGS WITH RESPECT TO NOTIONAL PRICE CONCEPT CONTAINED IN NEW WHEAT SCHEME FORMULATED AT APRIL 18-19 WASHINGTON BILATERALS REVEALED "FRAGILE" CONSENSUS THAT SPECIFIC PRICE AND SUPPLY OBLIGATIONS WOULD NOT BE ATTACHED TO UPPER AND LOWER NOTIONAL PRICE POINTS. IT WAS OBVIOUS THAT THE EC ATTACHES "REAL" MEANING TO THESE OUTER PRICE POINTS AND STATED THAT ACTIONS MUST BE EFFECTIVE IN PREVENTING OCCURENCE OF ALL BUT MINIMUM QUANTITIES OF TRADE BEYOND THE BAND. OTHER PARTICIPANTS HAD DIFFICULTY COMPREHENDING THE CONCEPT AND ACTIVELY SOUGHT FURTHER CLARIFICATION. THE LDC'S RESTATED THEIR CONCERN FOR "SPECIAL PROVISIONS" PARTICULARLY WITH RESPECT TO STOCKS; JAPAN RE-EMPHASIZED IMPORTANCE OF SUPPLY ASSURANCES; USSR RECALLED THEIR DISINTEREST IN LIMITED OFFICIAL USE

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PRODUCTION/CONSUMPTION ADJUSTMENTS; AND THE MAJOR EXPORTERS REMAINED ON THE SIDELINES WITH EXCEPTION OF CANADA WHICH EXPRESSED PREFERENCE FOR DEFINING NOTIONAL PRICES IN TERMS OF THE "BASKET." END SUMMARY.

1. INTERIM WORKING GROUP MEETING OPENED WITH INITIAL EXCHANGE BETWEEN EC (PIZUTTI) AND US (SAYLOR) REGARDING UNDERSTANDING REACHED DURING APRIL 18-19 BILATERALS IN WASHINGTON. WITH RESPECT TO WHEAT, PIZUTTI OFFERED THAT THE OBJECTIVE OF A NEW WHEAT SCHEME INVOLVING A PRICE RANGE IN WHICH COORDINATED MEASURES WOULD BE TRIGGERED ALONG THE INDICATOR SCALE WOULD BE TO CONTAIN WORLD WHEAT PRICES WITHIN THAT RANGE. PRICES SHOULD REMAIN WITHIN THE BAND AS A RESULT OF INTERNATIONALLY COORDINATED STOCKING MEASURES AND ADDITIONAL COORDINATED MEASURES BASED ON NATIONAL SYSTEMS.

2. SAYLOR RESPONDED THAT THE CREDIBILITY OF SUCH AN AGREEMENT DEPENDS UPON MEANINGFUL COMMITMENTS/MEASURES ON STOCKS, UTILIZATION AND OTHER MEASURES AND THE OVERALL CONSULTATIVE MACHINERY. IF SUCH MEASURES ARE NOT SUFFICIENT TO ADJUST FUNDAMENTAL CAUSES OF MARKET

INSTABILITY, PRICES CANNOT BE CONTAINED WITHIN THE RANGE.

3. THE CONCEPT OF "NOTIONAL PRICES" WERE INTRODUCED BY SAYLOR AS BOUNDS WITHIN WHICH COOPERATIVE STABILIZING ACTIONS WOULD TAKE PLACE. NOTIONAL PRICES WOULD IN EFFECT BE USED AS A GUIDE TO JUDGE THE ADEQUACY OF SUCH ADJUSTMENT MEASURES. SAYLOR MADE CLEAR THAT NO OBLIGATIONS OR COMMITMENTS WOULD BE ATTACHED TO THESE PRICES AND THAT WE SHOULD NOT DEFINE NOTIONAL PRICES IN SUCH A WAY AS TO DISADVANTAGE A PARTICULAR CLASS OR QUALITY OF WHEAT.

4. FOLLOWING THIS PRELIMINARY EXCHANGE, IT WAS AGREED LIMITED OFFICIAL USE

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TO RELEASE TO THE MEMBERS OF THE COMMITTEE THE SCHEMATIC

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TO SECSTATE WASHDC IMMEDIATE 9106

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AMEMBASSY TOKYO

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PRESENTATION FOR A NEW WHEAT AGREEMENT REPORTED REFTEL.
DISCUSSION DURING THE AFTERNOON SESSION FOCUSED ON THIS
DOCUMENT AND PROVIDED OPPORTUNITY FOR BOTH US AND EC TO
FURTHER CLARIFY THEIR UNDERSTANDINGS PARTICULARLY WITH
RESPECT TO "NOTIONAL PRICES". SUPPLEMENTAL POINTS
EMPHASIZED BY SAYLOR WITH RESPECT TO NOTIONAL PRICES
WERE AS FOLLOWS: (A) NOTIONAL PRICES COULD BE USED AS
A GUIDE TO HELP JUDGE WHETHER OR NOT THE AGREEMENT IS
WORKING, I.E. WHETHER MEASURES TAKEN ARE PROVING TO BE
SUFFICIENT OR EFFECTIVE; (B) THESE POINTS SHOULD BE
RELATED TO EXTREMES OF MARKET MOVEMENT OVER RECENT
YEARS; (C) THERE WOULD BE NO OBLIGATIONS ATTACHED TO
THESE NOTIONAL PRICE POINTS AND NO LINKAGE TO THE
OPERATIONAL MECHANISMS OF THE AGREEMENT; (D) THESE
PRICES WOULD NOT BE LINKED TO SPECIFIC WHEATS OR TO
SPECIFIC LOCATIONS; (E) THE CONCEPT OF NOTIONAL OR
NOMINAL PRICES MIGHT BE REPRESENTED IN A REDRAFTED
ARTICLE 3 WHICH IN THE EC TEXT OF IWA VERSION B
DRAFT CONSISTED OF THE DEFINITION OF GENERAL PROVISIONS
FOR IMPLEMENTING THE AGREEMENT; (F) AND FINALLY THAT
WHILE THERE IS A HIGH PROBABILITY, GIVEN MEANINGFUL
COMMITMENTS, OF CONTAINING PRICES WITHIN THE NOTIONAL

PRICE BAND, IT IS POSSIBLE THAT SOME VOLUME OF TRADE
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MIGHT TAKE PLACE OUTSIDE THESE POINTS IN EXTREME MARKET
STRESS CIRCUMSTANCES.

5. PIZUTTI'S RESTATEMENT OF THE EC UNDERSTANDING
EMPHASIZED THAT NOTIONAL PRICES ARE NOT THEORETICAL,
FICTICIOUS OR IMAGINARY, BUT SHOULD EXPRESS A "VISION
OF MARKET BALANCE". OFFERS ON THE WORLD WHEAT MARKET
SHOULD NOT BE MADE ABOVE THE NOTIONAL UPPER PRICE AND
THE NOTIONAL LOWER PRICE SHOULD BE RESPECTED IN PRACTICE.
EC EMPHASIZED POLITICAL, IF NOT LEGAL, COMMITMENT TO
ATTEMPT TO RESPECT NOTIONAL PRICES (WHICH EC TRANSLATES
AS "SAFEGUARD PRICES").

6. IN SUBSEQUENT INTERVENTIONS EC (JACQUOT) INSISTED
THAT THESE LIMITS ARE "REAL" AND THAT THE EC STILL
CONSIDERS VIABLE THE POSSIBILITY OF HAVING NOT ONE BUT
SEVERAL NOTIONAL PRICE POINTS, I.E. POINTS LINKED TO
DIFFERENT WHEATS. FURTHER, JACQUOT STATED THAT THE
LOWER NOTIONAL PRICE SHOULD BE LINKED TO THE UNITED
STATES IN LIGHT OF ITS PREPONDNERANT INFLUENCE ON WORLD
PRICES, I.E. LINKED TO THE U.S. LOAN RATE BELOW WHICH
MEMBERS OF THE AGREEMENT MUST INSURE THAT SIGNIFICANT
MEASURES PREVENT PRICES FROM BREACHING THAT LOWER
LEVEL. SPECIFICALLY, JACQUOT SUGGESTED THAT THE NOTIONAL
LOWER PRICE MIGHT BE \$95 PER TON AND THE UPPER NOTIONAL
PRICE \$200 PER TON.

7. CONCERNING ACTION POINTS AND ASSOCIATED MEASURES TO
BE IMPLEMENTED WITHIN THE NOTIONAL BAND, JACQUOT
INDICATED THAT AT THE THIRD RISING TRIGGER POINT
"MAINTENANCE OF DELIVERIES" SHOULD BE AT "TRADITIONAL"
LEVELS AND THAT EXPORT CONTROLS OR TAXES COULD NOT BE
IMPOSED. MORE SIGNIFICANTLY, AT A POINT SLIGHTLY ABOVE
THE LOWER NOTIONAL PRICE POINT IMPLYING PERHAPS AT THE
THIRD FALLING TRIGGER POINT THERE MUST BE THE OBLIGATION
TO CONSULT AS TO ADDITIONAL MEASURES WHICH MIGHT BE
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ADOPTED TO PREVENT PRICES FROM REACHING THE "MEANINGFUL"
LOWER NOTIONAL PRICE.

8. WITH RESPECT TO THE SECOND TRIGGER POINTS ON THE
INDICATOR SCALE, JACQUOT IMPLIED THAT MEMBER GOVERNMENTS

WOULD HAVE RESPONSIBILITY TO IMPLEMENT ADDITIONAL

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TO SECSTATE WASHDC IMMEDIATE 9107

INFO AMEMBASSY ALGIERS

AMEMBASSY BANGKOK

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MEASURES WHEN THE BASKET INDICATOR REACHED THE SECOND
TRIGGER POINT.

9. SIGNIFICANT COMMENTS FROM OTHER DELEGATIONS WERE AS
FOLLOWS:

CANADA -- MINER FELT THAT DIFFERENCES OF VIEW BETWEEN
U.S. AND EC REGARDING NOTIONAL PRICES SEEMED SIGNIFICANT
AND THAT ADDITIONAL CLARIFICATION WAS NEEDED. HE ADDED
THAT U.S. CONCEPT APPEARED TO BE CLOSER TO EARLIER
CONCEPT OF PRICE OBJECTIVES IN THAT IT ACKNOWLEDGED
THAT TRADING PRICES COULD EXCEED NOTIONAL LEVELS IN
EXTREME SITUATION. DURING SEPARATE EXPORTER MEETING,
MINER ACKNOWLEDGED TWO POSSIBLE DRAWBACKS OF HAVING
NOTIONALS DEFINED IN BASKET-WHEAT TERMS, AS FOLLOWS:
(1) THERE WOULD ALWAYS BE A RISK THAT IF EXPORTERS DO
NOT REMAIN "TOUGH ENOUGH," THERE MIGHT EVOLVE FROM THE
FINAL NEGOTIATION SOME FORM OF RIGIDITY FOR THE NOTIONALS
THAT WOULD BE TROUBLESOME FOR EXPORTERS, AND (2) THERE
MIGHT BE A PRESENTATIONAL PROBLEM, IN THAT A NOTIONAL
DEFINED ON THE BASKET SCALE BELOW THE THIRD FALLING
POINT MIGHT LOOK UNACCEPTABLY LOW TO PRODUCERS.

ARGENTINA -- ZORRIGUIETA STATED THAT HIS UNDERSTANDING
OF NOTIONAL PRICES WAS THAT THEY WERE NEITHER INDICATIVE
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NOR IN TERMS OF EC MINIMUM/MAXIMUM PRICE CONCEPT BUT
INSTEAD REPRESENTED GUIDELINES AGAINST WHICH MEMBERS
AGREED TO DO THEIR BEST TO SEE THAT THE PRICE BAND WAS
RESPECTED.

JAPAN -- UKAWA STATED THAT HE DID NOT UNDERSTAND THE
NOTIONAL CONCEPT AND AT THIS POINT COULD NOT "VOTE FOR
OR AGAINST." HE ADDED HOWEVER THAT JAPAN INTENDED TO
VOTE. HE RAISED THE NUMBER OF QUESTIONS WITH RESPECT
TO THE RELATIONSHIP BETWEEN NOTIONAL PRICES AND TRIGGER
PRICES, DEFINITION OF BASKET, THE ISSUE OF STOCK RELEASE
TO WHOM AND AT WHAT PRICE, AND UNDERScoreD THE IMPORTANCE
FOR JAPAN OF QUESTION OF SUPPLY ASSURANCES.

USSR -- (VLASOV) A SHORT INTERVENTION RECALLING THAT THE ADDITIONAL MEASURES FOR REGULATION OF DOMESTIC PRODUCTION/CONSUMPTION VIA AN INTERNATIONALLY COORDINATED SYSTEM COULD NOT BE ACCEPTABLE TO THE USSR.

INDIA -- (BALASUBRAMANIAM) CONTENDED THAT US/EC INITIATIVE HAD NOT MOVED FORWARD WORK OF CONFERENCE TO SATISFACTORY POINT RE LDC CONCERNS. ALTHOUGH PROPOSED MEASURES MAY BETTER INSURE ADEQUATE SUPPLIES, THE MATTER OF PRICE PROTECTION HAS BEEN MINIMIZED, I.E. HIGH WORLD WHEAT PRICES WILL SERIOUSLY AFFECT DEVELOPING IMPORTERS REGARDLESS OF ABSOLUTE SUPPLY AVAILABILITY.

FINLAND -- SOUGHT CLARIFICATION OF WHETHER RESERVES WOULD BE RELEASED ONLY TO MEMBERS. (US RESPONDED BY REPEAT OF PREVIOUS POSITION, I.E., "FOR THE BENEFIT OF "MEMBER COUNTRIES, AND CITED REASON THAT IN PRACTICAL TERMS IT IS NOT POSSIBLE TO STABILIZE PARTS OF THE WORLD MARKET SELECTIVELY.) VANDEN HEUVEL

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Message Attributes

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